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DE RUEHSB #0629/01 1461007  
ZNY CCCCC ZZH  
P 261007Z MAY 06  
FM AMEMBASSY HARARE  
TO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 0110  
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUEHUJA/AMEMBASSY ABUJA 1219  
RUEHAR/AMEMBASSY ACCRA 1055  
RUEHDS/AMEMBASSY ADDIS ABABA 1225  
RUEHBY/AMEMBASSY CANBERRA 0483  
RUEHDK/AMEMBASSY DAKAR 0849  
RUEHKM/AMEMBASSY KAMPALA 1276  
RUEHMO/AMEMBASSY MOSCOW 0025  
RUEHNR/AMEMBASSY NAIROBI 3646  
RUEHF/AMEMBASSY PARIS 1048  
RUEHRO/AMEMBASSY ROME 1685  
RUEHBS/USEU BRUSSELS  
RUEHG/USMISSION GENEVA 0569  
RHEHNSC/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1434  
RUEKJCS/Joint STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKDIA/DIA WASHDC//DHO-7//  
RUCPDOC/DEPT OF COMMERCE WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//  
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000629

SIPDIS

SIPDIS

AF/S FOR B. NEULING  
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE  
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN  
TREASURY FOR J. RALYEY AND B. CUSHMAN  
COMMERCE FOR BECKY ERKUL

E.O. 12958: DECL: 01/12/2016

TAGS: ECON EFIN EMIN PGOV ZI

SUBJECT: ZIMPLATS TURNS OVER 36 PERCENT OF ITS GROUND TO GOZ

REF: A. HARARE 560

¶B. HARARE 349  
¶C. HARARE 300

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

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Summary  
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¶1. (C) Zimplats CEO Greg Sebborn told econoff on May 24 that the company was signing an agreement that day to release 36 percent of its ground to a GOZ mining development parastatal.

In return, it would receive a not yet quantified "empowerment credit" in connection with ongoing GOZ plans to indigenize the sector. Zimplats was hedging its most recently approved tranche of investment by pushing out major spending into 2007 while it monitored political developments.

Sebborn said the GOZ had agreed to conclude a Bilateral Investment Promotion and Protection Agreement (BIPPA) with Russia and would get military hardware in return for Russian mining companies entering into partnerships with the GOZ mining parastatal on the ground Zimplats was ceding. End  
Summary

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Zimplats to Cede Ground for Empowerment Credit  
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¶2. (C) Zimplats CEO Greg Sebborn told econoff on May 24 that

the company was signing an agreement with the GOZ that day, valued at USD 153 million, to release 36 percent of its ground to the parastatal Zimbabwe Mining Development Corporation (ZMDC). The GOZ and Zimplats planned to issue a press statement on the deal on May 26. The agreement did not specify how much empowerment credit the platinum giant would receive in connection with GOZ indigenization plans that have yet to be finalized. However, Sebborn said that if the credit were based on Zimplats' recent weighted average share price, a methodology his company favored, it would amount to 18 or 27 percent, depending on whether the company got an equity stake or cash for some of the claims (Ref A). Sebborn said Zimplats also anticipated empowerment credit for its social spending.

¶13. (C) Sebborn said the mining industry had lobbied hard for the fully compensated release of 30 percent equity in foreign-owned mines. However, he concluded that the GOZ was determined to take over and control 51 percent of "strategic minerals" such as platinum and uranium. He therefore expected continued pressure from the GOZ for a further uncompensated ("free carry") equity stake. (NB: Key details of the GOZ's mining sector indigenization scheme remain unclear; in his most recent public pronouncement on the matter, President Mugabe said the GOZ would end up with 51 or 50 percent of all mining concerns.)

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New Investment to be Backloaded  
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¶14. (C) According to Sebborn, in agreeing to the deal earlier  
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this month, the Zimplats Board of Directors saw greater risk in balking over the terms of black empowerment than in reconciling and moving forward with the GOZ. The company had, in fact, invited President Mugabe to dedicate the opening of a new Zimplats underground portal the first week of June.

¶15. (C) At the same Board meeting, Sebborn said the Directors approved USD 258 million further investment to expand platinum production substantially over the next two years. The investment was hedged to some extent by heavy backloading of the flow to 2007 and 2008. According to Sebborn, "if politics became bad," the Board would review its decision; if all went well, Zimplats was prepared to invest US\$ 2.5 billion in Zimbabwe over the next fifteen years.

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The Russian Interest  
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¶16. (C) In a related development, Sebborn said the GOZ had agreed to conclude a Bilateral Investment Promotion and Protection Agreement (BIPPA) with Russia. He speculated that the GOZ envisioned more than one Russian mining company taking over the freed up Zimplats ground in a 49/51 percent minority partnership with the ZMDC. The complicated deal with the Russian government also involved the transfer of Russian "attack helicopters and other military hardware" to Zimbabwe.

¶17. (C) Regardless of GOZ aspirations to control a majority stake, Sebborn said he believed the Russian companies would eventually succeed in negotiating a majority share in the investment. This was due to the very high development cost that the GOZ expected the foreign companies to finance alone, and to the extreme risk the companies would be running. Recalling Minister Midzi's announcement of Cabinet-approved principles of indigenization (Ref C) followed by public outcry and then backpedaling (Ref B), he suggested that the GOZ had been "working to a script" from the start and he concluded that "we've been done over."

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Comment  
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18. (C) From Zimplats' perspective, record platinum group metal prices, its sizeable sunk investment and large claims, along with the skewed political environment all tipped the scale toward a quick negotiated solution to the empowerment question. However, the uncertainty still surrounding the extent and terms of the GOZ's pending mineral asset takeover make the deal high risk for the company. Moreover, it sets a bad precedent for a sector that needs predictable rules rather than case-by-case deals with a dysfunctional government.

19. (C) Mugabe will undoubtedly spin the deal as a great policy victory and evidence of improving investor confidence. However, despite Russian and Chinese interest in sweetheart arrangements, the GOZ-Zimplats deal should have a further dampening effect on genuine private sector investment, which

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has already been suppressed in the mining sector and elsewhere by the GOZ's continuing gross misgovernance and its comprehensive policy disarray.

SCHULTZ